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SUBJECT: Turkey FDI: GOT Expectations Tied to EU Accession
Negotiations

REF: Ankara 6009

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1.(SBU) Summary: Government and private sector representatives participated in an event organized by the Foreign Investment Association (YASED), where Prime Minister Erdogan also gave a speech. In his speech, Erdogan attributed the increase in FDI this year to the positive developments in the Turkish economy. However, business sector representatives complained about lack of action and progress on the GOT's side. They were particularly critical about a "misleading" Turkish Treasury report, which claimed that the GOT had made significant progress in FDI reform. While FDI inflows have risen in 2004 and the PM and others in the GOT look forward to rising FDI following the EU Summit, working-level Treasury contacts and private sector representatives agree that the GOT's investment climate reform efforts have stalled. Though there may be some increase in FDI flows arising from the EU decision and new IMF program, we do not expect Turkey to have a sustainable quantum leap in FDI, unless it continues to demonstrate its commitment to investment climate reform. End Summary.

2. (U) Speaking at a November 25 conference hosted by the Foreign Investment Association (YASED), Prime Minister Erdogan claimed that positive developments in the economy in the last two years had contributed to a more favorable investment environment in Turkey. Erdogan stated that 95 percent of the increase in FDI in 2004 came from European Union (EU) countries. Erdogan said all investors, domestic and foreign, would be treated equally in Turkey and the GOT was ready to take action if there was any complaint about unfair treatment. Note: Though the GOT has taken action--albeit delayed--on some U.S. company problems, for the most part the GOT has failed to help U.S. investors resolve their problems here. End Note. Erdogan noted that recent FDI and Incentives Laws had eased conditions for foreign investors and brought about a significant increase in the number of companies established in Turkey. Erdogan said the GOT was committed to take any steps necessary to attract foreign investment to Turkey.

3. (U) The participants welcomed Erdogan's remarks on improving the investment environment in Turkey, but complained that the GOT failed to take action on these statements. In his opening speech, YASED President Saban Erdikler praised the GOT's efforts to improve the investment environment, noting the need for continued progress. At a reception prior to Prime Minister Erdogan's speech, the participants discussed the status of FDI in Turkey. The business sector was particularly critical about a long-delayed FDI report Turkish Treasury was getting ready to publish, which the businesses thought was biased and reflected an "overly positive FDI outlook" for Turkey. Treasury was expected to prepare this report within six months of the Investors' Council held in Istanbul in March 2004, and to send it to the CEOs of 19 international companies who participated in that meeting. Speaking privately at a reception before the speeches, representatives of YASED, the Turkish Union of Chambers and Commodity Exchanges (TOBB) and Turkish Industrialists' and Businessmen's Association (TUSIAD) complained about lack of progress in the GOT's efforts to improve the investment environment. Treasury Foreign Capital Deputy Director General Osman Emed, who also participated in the event, confirmed the delay in FDI reform efforts, and attributed this to the GOT's focus on December 17, the decision date for the GOT's EU accession negotiations.

4. (U) Following YASED's event, the press reported that the business representatives told Erdogan about the problems with the report, and complained that most of the problems listed in the Investors' Council remained unresolved. Erdogan reportedly directed Treasury to revise the report

and include businesses' comments in it. Press reports claimed that Erdogan also personally contacted relevant GOT offices about the problems investors raised with him during the event.

15. (U) The GOT announced its EU pre-accession economic program on December 2. The GOT's program included ambitious macroeconomic targets, including its \$15 billion FDI inflow target for the 2005- 2007 period. In its economic program, the GOT also committed to continue its efforts to improve the investment environment. The EU announced on December 17 that the accession negotiations with Turkey would begin on October 3, 2005. Following the EU decision, Deputy Prime Minister Abdullatif Sener reiterated the GOT's \$15 billion FDI target.. Business representatives commented that EU accession alone would not be sufficient to bring Turkey the FDI boom it expects, and the GOT should continue to demonstrate its commitment to reform in the investment climate and the judicial system to attract investments.

16. (SBU) Comment: While the GOT continues to tout FDI data showing an increase in this year's flow of foreign capital, much of it derives from investment in real estate rather than long-term, employment-generating investments. There has apparently been an increase in company formation and in the number of foreign businesses sniffing for opportunities in Turkey recently. The GOT seems to be relying on the prospect of EU accession to act as a significant magnet for FDI, rather than continuing to implement needed reforms in the business climate. We think despite the EU's "green light," the GOT will not be able to achieve a sustainable increase in FDI, nor will it reach its ambitious FDI target in the short-term, if it continues to delay its investment climate reform efforts.

Edelman